U.S.-Chile FTA Brings New Opportunities for U.S. Exporters

By María José Herrera

It may be due to Chile's extended length and mountainous terrain, but 6 million out of its 15 million residents are concentrated near Santiago. Consequently, as the U.S.-Chile FTA (Free Trade Agreement) goes into effect, this hub and capital remains the center of U.S. export activity in Chile.

The countries shared a $2.63 billion two-way trading relationship in agricultural, fish and forest products in calendar 2003, of which only $158 million were U.S. exports.

Chile has granted preferential access to its 16 other trade agreement partners. Under the new FTA that went into effect on Jan. 1, 2004, the United States also gained preferential access. Within four years, three-quarters of U.S. products will be tariff-free; in 12 years, all will be tariff-free. Moreover, both sides have renewed a commitment to work on resolving sanitary and phytosanitary issues that inhibit trade.

Hotel Restaurants Introduce New Products

Most five-star hotels in the country—and high-end restaurants and institutional food service companies—are in Santiago.

Although hotel restaurants make up the smallest slice of the HRI (hotel, restaurant and institutional) pie at $40 million worth of annual sales, they serve as a gateway for many new products that enter the Chilean marketplace.

The restaurant sector has experienced the most growth since 1999, even with a slow economy. Competition is fierce as many new outlets open. Estimates put restaurant sales at $500 million yearly.

Best Prospects

- Cheeses
- Chocolates
- Ethnic foods—Japanese, Mexican
- Frozen and dry legumes
- Frozen fruits and vegetables
- Frozen potato fries
- Frozen fish and shellfish
- Hams
- Liquors
- Organic products
- Preserves and jams
- Sauces
- Specialty rice
- Spices
- U.S.-style cuts of beef, pork and chicken

The institutional sector, which is also very competitive, accounts for $500 million in sales each year, and is expected to grow the fastest in the next few years. As with restaurants, the battle continues for market share, and companies sometimes

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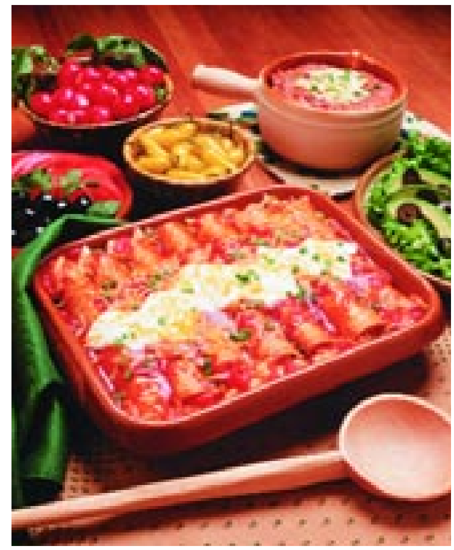
Benefits for U.S. Agriculture

Important tariff reductions that will make U.S. products more competitive include:

- Full liberalization of corn trade and elimination of Chilean tariffs on most distilled spirits in two years; potatoes and potato products, in four years
- Immediate Chilean tariff elimination on: pork and pork products, beef offal, durum wheat, barley, barley malt, sorghum, soybeans and soybean meal, pasta, breakfast cereals, cereal preparations and sunflower seeds
- Access for beef on both sides completely liberalized over four years, beginning with a 1,000-metric-ton quota, a 10-percent annual growth factor and a linear phase-out of the out-of-quota tariff rate
- Tariffs on U.S. and Chilean wines progressively harmonized down to the lowest wine tariff rate, and then eliminated in the 12th year of the agreement
- Access for poultry on both sides completely liberalized over 10 years, beginning in 2005 with an 8,000-metric-ton tariff-rate quota, a 5-percent annual growth factor and a linear phase-out of the out-of-quota tariff rate
- Chile's duties on many dairy products, including cheeses, whey and yogurt, eliminated in four years; duties on other dairy products eliminated in eight years



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are willing to sacrifice margins to maintain their positions.

The four largest companies, which control 69 percent of the institutional sector, are expected to grow 15 percent annually in sales.

Local Production Wins Price War

Most vegetables, fruits and processed foods, poultry, pork and seafood consumed by the HRI sector are produced locally. Imports typically include legumes, red meats, baked goods, breakfast cereals, bakery and confectionery ingredients, some fruits and fruit juices and edible oils.

Top-level hotels spend 20-30 percent of their food budget on imports. Most spirits are also imported. High-end restaurants typically spend less on imports, 10-15 percent. Institutional companies buy mostly local products.

Convenience Coming of Age

Several factors are contributing to increased demand for convenience products in Chile's HRI sector: higher labor costs, heightened consumer expectations and use of processed products to simplify food preparation. More women in the workforce are also tipping the scale toward convenience, upping the number of meals eaten outside the home and demand for easy-to-prepare foods.

Eating patterns are changing too. Breakfast is becoming more important compared to lunch, with demand for heavy meals giving way to lighter, healthier foods.

Road Map for Entry

U.S. suppliers entering this market should differentiate their products from others by stressing quality control, uniformity and reliability—traits for which U.S. products are renowned.

Suppliers should be aware that timely delivery and consistent quality are key to breaking into a market that is dominated by domestic producers. An efficient distributor that provides timely delivery, consistent quality and overall dependable service is critical.

Promotions of new products cannot be overestimated. While many end-users are unfamiliar with foreign products, those who do purchase imports currently have a preference for the perceived cachet of European products. It is important to promote an image of U.S. products that compares favorably with higher visibility European products, and to persuade business managers and owners that the benefits of better products and service often offset higher prices.

Don't forget that trade shows provide excellent venues to secure market presence. ■

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